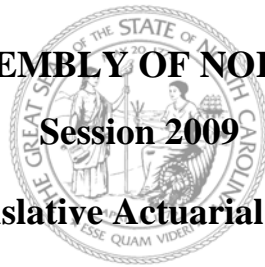


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 429 (First Edition)

SHORT TITLE: Retirement System COLAs.

SPONSOR(S): Representative Tucker

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System, General Fund for the Consolidated Judicial Retirement System and the Legislative Retirement System and local funds for the Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System.

EFFECTIVE DATE: July 1, 2009

BILL SUMMARY: States the General Assembly's intent to provide for a cost-of-living adjustment to the benefits provided to retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Local Governmental Employees' Retirement System for the 2009-2010 fiscal year that is the same percentage increase as those salary increases that are provided to state employees for the 2009-2010 fiscal year and provides that the increase is not to be more than 1%.

ESTIMATED FISCAL IMPACT: The estimated cost to grant a 1% COLA for Teachers' and State Employees' Retirement System and the amount needed to be appropriated is as follows:

Retirement System Actuary: Buck Consultants estimates the cost to be 0.32% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$32.6M	\$34.4M	\$36.3M	\$38.3M	\$40.4M
Highway Fund	\$1.5M	\$1.6M	\$1.7M	\$1.8M	\$1.9M
Receipt Funds	<u>\$12.5M</u>	<u>\$13.2M</u>	<u>\$13.9M</u>	<u>\$14.7M</u>	<u>\$15.5M</u>
Total Cost	\$46.7M	\$49.2M	\$51.9M	\$54.8M	\$57.8M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.31% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$31.6M	\$33.3M	\$35.2M	\$37.1M	\$39.1M
Highway Fund	\$1.5M	\$1.5M	\$1.6M	\$1.7M	\$1.8M
Receipt Funds	<u>\$12.1M</u>	<u>\$12.8M</u>	<u>\$13.5M</u>	<u>\$14.2M</u>	<u>\$15.0M</u>
Total Cost	\$45.2M	\$47.7M	\$50.3M	\$53.0M	\$55.9M

The estimated cost to grant a 1% COLA for the Consolidated Judicial Retirement System and the amount needed to be appropriated is as follows

Retirement System Actuary: Buck Consultants estimates the cost to be 0.52% of the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$353,600	\$371,139	\$389,547	\$408,869	\$429,148

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.51% the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$346,800	\$364,001	\$382,056	\$401,006	\$420,896

The estimated cost to grant a 1% COLA for the Local Governmental Employees' Retirement System is as follows:

Retirement System Actuary: Buck Consultants estimates the cost to be 0.17 % of the payroll of all members of the Local Governmental Employees' Retirement System

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Local Funds	\$9.0M	\$9.4M	\$9.9M	\$10.4M	\$10.9M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.16% the payroll of all members of the Local Governmental Employees' Retirement System

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Local Funds	\$8.4M	\$8.8M	\$9.3M	\$9.7M	\$10.2M

There are available gains of 0.58% of payroll in the Local Governmental Employees' Retirement System to fund this increase without increasing the contribution rate to units of local government.

ASSUMPTIONS AND METHODOLOGY:

Teachers' & State Employees' Retirement System

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2007 actuarial valuation of the fund. The data included 338,490 active members with an annual payroll of \$12.7 billion, 145,855 retired members in receipt of annual pensions totaling \$2.9 billion, and actuarial value of assets equal to \$55.3 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) average salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables (tables are not adjusted for male teachers, set forward one year for female teachers, set forward two years for general employees and law enforcement officers and set forward two years for the beneficiaries of deceased member), and (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a frozen liquidation period of nine years. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Consolidated Judicial Retirement System

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2007 actuarial valuation of the fund. The data included 548 active members with an annual payroll of \$61.3 million, 482 retired members in receipt of annual pensions totaling \$26 million, and actuarial value of assets equal to \$430.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables, (tables are set forward two years for post-retirement period and set back one year for pre-retirement period and special mortality tables are used for period after disability retirement), and (d) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. The method used to determine the contribution rate is the projected unit credit method with a frozen unfunded liquidation period of nine years. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Local Governmental Employees' Retirement System

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2007 actuarial valuation of the fund. The data included 127,959 active members with an annual payroll of \$4.75 billion, 42,408 retired members in receipt of annual pensions totaling \$689.4 million, and actuarial value of assets equal to \$16.8 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables, (tables are set forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members and special mortality tables are used for period after disability retirement), and (d) rates of separation from active service based on System experience. The actuarial cost method used was the projected benefit method with aggregate level normal cost and frozen accrued liability. Gains and losses are reflected in the normal rate. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910. The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

PREPARED BY: Stanley Moore

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

DATE: March 17, 2009



Signed Copy Located in the NCGA Principal Clerk's Offices